

FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
WILLIAM NEWTON MEMORIAL HOSPITAL  
DECEMBER 31, 2014 AND 2013

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WILLIAM NEWTON MEMORIAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended December 31, 2014 and 2013

Our discussion and analysis of the financial performance of William Newton Memorial Hospital (the Hospital) provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2014 and 2013. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Hospital's net position increased by \$1,293,592 or 8.0 percent in 2014, \$133,999 or 0.8 percent in 2013, and by \$713,165 or 4.6 percent in 2012.

The Hospital reported an operating income of \$924,322 in 2014, \$234,752 in 2013, and \$775,962 in 2012.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

WILLIAM NEWTON MEMORIAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended December 31, 2014 and 2013

Assets, liabilities, and net position

The Hospital's net position as of the end of each of the last three years is summarized as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Cash	\$ 5,024,133	\$ 5,380,410	\$ 4,965,095
Patient accounts receivable, net	5,105,654	4,476,524	3,418,026
Other current assets	<u>893,007</u>	<u>776,582</u>	<u>1,782,165</u>
Total current assets	11,022,794	10,633,516	10,165,286
Capital assets, net	13,456,463	13,029,312	14,269,579
Other assets	<u>455,125</u>	<u>144,167</u>	<u>71,667</u>
Total assets	<u>\$ 24,934,382</u>	<u>\$ 23,806,995</u>	<u>\$ 24,506,532</u>
Liabilities and net position			
Current liabilities	\$ 3,750,173	\$ 3,460,734	\$ 3,378,935
Noncurrent liabilities	3,647,052	4,102,696	5,018,031
Net position	<u>17,537,157</u>	<u>16,243,565</u>	<u>16,109,566</u>
	<u>\$ 24,934,382</u>	<u>\$ 23,806,995</u>	<u>\$ 24,506,532</u>

The Hospital's cash balances decreased by \$356,277 in 2014 as compared to 2013 after increasing by \$415,315 in 2013. Significant items affecting the change in cash are reported in the cash flow statement. Operating cash flows declined by approximately \$0.3 million in 2014 as compared to 2013, which was due principally to the difference in the change in the Hospital's receivable payable position with third-party payors. The number of days net revenue in net patient accounts receivable represented 64 days in 2014, 62 days in 2013, and 52 days in 2012. Other current assets increased in 2014 by approximately \$45,000 after decreasing by approximately \$1.0 million in 2013 as compared to the previous year. Our current ratio, or ratio of current assets to current liabilities, has remained relatively consistent at 2.9, 3.1, and 3.0 for 2014, 2013, and 2012.

Capital assets increased by \$427,151 in 2014 and decreased by \$1,240,267 in 2013. The change in capital assets will vary based on the timing of replacement in equipment and the annual provision for depreciation.

We utilize long-term leases or debt to finance major capital expenditures and try to maintain sufficient liquidity in our balance sheet to cover day-to-day operating expenses of the Hospital and to provide flexibility in operating the Hospital. Our ratio of equity to total assets for the past three years was 70, 69, and 66 percent at December 31, 2014, 2013, and 2012, respectively. In 2014, we entered into several new leases which included new leases for computers, an ultrasound machine, and laboratory equipment. In 2013, we did not enter into any new capital leases.

WILLIAM NEWTON MEMORIAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended December 31, 2014 and 2013

Operating results and changes in net position

The Hospital's operating results and changes in net position for each of the last three years are summarized as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	<u>\$ 30,070,911</u>	<u>\$ 27,229,107</u>	<u>\$ 25,962,353</u>
Operating expenses			
Salaries and benefits	16,463,230	15,606,502	14,285,012
Supplies and other	10,457,274	9,352,327	8,937,527
Depreciation	<u>2,226,085</u>	<u>2,035,526</u>	<u>1,963,852</u>
Total operating expenses	<u>29,146,589</u>	<u>26,994,355</u>	<u>25,186,391</u>
Operating income	924,322	234,752	775,962
Other changes in net position	<u>369,270</u>	<u>(100,753)</u>	<u>(62,797)</u>
Increase in net position	<u>\$ 1,293,592</u>	<u>\$ 133,999</u>	<u>\$ 713,165</u>

The first, and most significant, component of the overall change in the Hospital's net position is its operating income - generally, the difference between net patient service revenue and the expenses incurred to perform those services. The Hospital's operating income increased by \$689,570 in 2014 and decreased by \$541,210 during 2013, both as compared with the prior year. The Hospital is designated as a critical access hospital and is generally reimbursed based on cost reimbursement principles by Medicare.

Total operating revenues increased by 10.4 percent in 2014 as compared to an increase of 4.9 percent in 2013. Operating revenues are impacted by volume of services provided, payor mix, level of charity care and uncompensated care, timing of recognition of electronic health record incentive payments, and expenses as this impacts our revenues associated with cost reimbursed services. The increase in 2014 was positively impacted by increased patient volume and the Hospital beginning participation in the 340b drug program in 2014. Increased revenues were noted from the Hospital's surgical clinic and increases from its RHC clinics.

As a not-for-profit hospital, we serve all patients who come to our Hospital, regardless of ability to pay. During 2014, 2013, and 2012, the Hospital wrote off \$2,358,381, \$1,276,408, and \$962,637 in charges related to bad debts or patients who qualify for charity care under our charity care policy. The increase in net write-offs in 2014 was directly related to a decrease in recoveries primarily due to our participation in the Kansas set-off program. We receive some relief for the cost of uncompensated care as we qualify for Medicaid disproportionate share payments (DSH) which is designed to reimburse hospitals for the cost of uncompensated care related to both uninsured and Medicaid beneficiaries. Total payments received under the Medicaid DSH program in 2014, 2013, and 2012 were \$890,324. These special payments are to reimburse the Hospital for a portion of its uncompensated care related to serving uninsured and Medicaid beneficiaries and are funded by both the federal and state levels of government.

WILLIAM NEWTON MEMORIAL HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended December 31, 2014 and 2013

Operating expenses increased by 8.0 percent in 2014 as compared with 2013 and increased by 7.2 percent in 2013 as compared to 2012. Significant changes in operating expenses in 2014 in comparison to 2013 are due to an increase in contract service expense of \$337,138, medical supplies expense of \$334,464, pension costs of \$204,222, and 340b drug program costs of \$202,486. The 2013 increase was related to the Hospital acquiring an additional rural health clinic, the recruitment of an additional OB-GYN physician, and the opening of a surgical clinic. These three services accounted for approximately \$1.3 million of the increase in expense in 2013 over 2012. We manage our expenses with a goal to hold them at or below normal inflationary pressures. Each year we evaluate our charge structure and adjust rates accordingly. These rate adjustments, however, do not impact net revenues proportionately, as the majority of third-party payors reimburse us for services based on either costs or set fee schedule rates that we have marginal ability to negotiate.

Other changes in net position were impacted in 2014 and 2013 by a decrease in interest costs. This decrease was offset by changes in investment income and noncapital grants and contributions.

The focus of Hospital management remains that of maintaining and growing utilization of Hospital services. Although the population living in our primary market area is not anticipated to fluctuate dramatically in the future, patient out-migration to other health care markets is a concern as some residents look outside our community for services. Our philosophy is to commit resources to maintain updated facilities and to invest in state of the art technology. We are also committed to offering programs and services that improve patient safety and promote a high level of quality care within the Hospital. Many factors, both internal and external, affect our ability to meet our goals. For example, to maintain or grow hospital utilization, there is a requirement that the community have an adequate number and mix of primary care and specialty physicians. We monitor these numbers and continue to be proactive in the recruitment of physicians to our community.

This financial report is designed to provide a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the funds it receives. If you have any questions about this report or need additional information, contact the Administration Office at 1300 East 5th Avenue, Winfield, Kansas 67156.





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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
William Newton Memorial Hospital

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of William Newton Memorial Hospital as of and for the years ended December 31, 2014 and 2013, which collectively comprise the Hospital's financial statements as listed in the table of contents and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of William Newton Memorial Hospital as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other-Matters**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 4 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Wendy Mae Nelson & Johnson LLC*

Topeka, Kansas  
June 8, 2015



FINANCIAL STATEMENTS

WILLIAM NEWTON MEMORIAL HOSPITAL

STATEMENTS OF NET POSITION

December 31,

ASSETS

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 5,024,133	\$ 124,412	\$ 5,380,410	\$ 227,913
Short-term investments		342,484		524,155
Patient accounts receivable, net of allowance for doubtful accounts of \$1,663,629 in 2014 and \$1,212,794 in 2013	5,105,654		4,476,524	
Other receivables	311,414	19,000	27,745	30,000
Inventories	402,600		363,773	
Prepaid expenses	111,748		286,278	
Estimated third-party payor settlements	67,245		98,786	
Total current assets	<u>11,022,794</u>	<u>485,896</u>	<u>10,633,516</u>	<u>782,068</u>
ASSETS LIMITED AS TO USE				
Principal of permanent endowments	<u>-</u>	<u>447,577</u>	<u>-</u>	<u>447,537</u>
CAPITAL ASSETS, net	<u>13,456,463</u>	<u>-</u>	<u>13,029,312</u>	<u>-</u>
OTHER ASSETS	<u>455,125</u>	<u>-</u>	<u>144,167</u>	<u>-</u>
	<u>\$ 24,934,382</u>	<u>\$ 933,473</u>	<u>\$ 23,806,995</u>	<u>\$ 1,229,605</u>

The accompanying notes are an integral part of these statements.

# LIABILITIES AND NET POSITION

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT LIABILITIES				
Current maturities of capital leases	\$ 738,239	\$ -	\$ 882,486	\$ -
Accounts payable	590,998		765,156	
Salaries, wages, and related withholdings payable	873,597		810,822	
Accrued discretionary leave	924,099		842,270	
Estimated third-party payor settlements	623,240		160,000	
Total current liabilities	<u>3,750,173</u>	<u>-</u>	<u>3,460,734</u>	<u>-</u>
CAPITAL LEASES, net of current maturities	<u>3,647,052</u>		<u>4,102,696</u>	
Total liabilities	<u>7,397,225</u>	<u>-</u>	<u>7,563,430</u>	<u>-</u>
NET POSITION				
Invested in capital assets - net of related debt	9,071,172		8,044,130	
Temporarily restricted		68,010		250,071
Restricted nonexpendable permanent endowments		447,577		447,537
Unrestricted	<u>8,465,985</u>	<u>417,886</u>	<u>8,199,435</u>	<u>531,997</u>
	<u>17,537,157</u>	<u>933,473</u>	<u>16,243,565</u>	<u>1,229,605</u>
	<u>\$ 24,934,382</u>	<u>\$ 933,473</u>	<u>\$ 23,806,995</u>	<u>\$ 1,229,605</u>

WILLIAM NEWTON MEMORIAL HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITON  
Years ended December 31,

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Operating revenues				
Net patient service revenue	\$ 28,894,694	\$ -	\$ 26,458,852	\$ -
Electronic health records incentive revenue	194,266			
Other	<u>981,951</u>	<u>248,482</u>	<u>770,255</u>	<u>157,876</u>
Total operating revenues	<u>30,070,911</u>	<u>248,482</u>	<u>27,229,107</u>	<u>157,876</u>
Operating expenses				
Salaries and wages	13,234,263		12,696,559	
Employee benefits	3,228,967		2,909,943	
Supplies and other	10,457,274	584,768	9,352,327	134,471
Depreciation and amortization	<u>2,226,085</u>		<u>2,035,526</u>	
Total operating expenses	<u>29,146,589</u>	<u>584,768</u>	<u>26,994,355</u>	<u>134,471</u>
Operating income (loss)	<u>924,322</u>	<u>(336,286)</u>	<u>234,752</u>	<u>23,405</u>
Nonoperating revenues (expenses)				
Investment income	8,945	40,154	14,045	116,447
Interest expense	(213,283)		(263,616)	
Noncapital grants and contributions	49,042		25,089	
Other	<u>484</u>		<u>15,596</u>	
Total nonoperating revenues (expenses)	<u>(154,812)</u>	<u>40,154</u>	<u>(208,886)</u>	<u>116,447</u>
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	769,510	(296,132)	25,866	139,852
Capital grants and contributions	<u>524,082</u>		<u>108,133</u>	
Change in net position	1,293,592	(296,132)	133,999	139,852
Net position at beginning of year	<u>16,243,565</u>	<u>1,229,605</u>	<u>16,109,566</u>	<u>1,089,753</u>
Net position at end of year	<u>\$ 17,537,157</u>	<u>\$ 933,473</u>	<u>\$ 16,243,565</u>	<u>\$ 1,229,605</u>

The accompanying notes are an integral part of these statements.

WILLIAM NEWTON MEMORIAL HOSPITAL  
STATEMENTS OF CASH FLOWS  
Years ended December 31,

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$ 28,760,345	\$ -	\$ 26,229,867	\$ -
Payments to or on behalf of employees	(16,318,626)		(15,392,393)	
Payments to suppliers	(10,819,816)	(584,768)	(9,127,294)	(134,471)
Other receipts and payments	<u>892,548</u>	<u>259,482</u>	<u>1,132,374</u>	<u>161,876</u>
Net cash provided (used) by operating activities	<u>2,514,451</u>	<u>(325,286)</u>	<u>2,842,554</u>	<u>27,405</u>
Cash flows from noncapital financing activities				
Noncapital grants and contributions	<u>49,042</u>		<u>25,089</u>	
Net cash provided by noncapital financing activities	<u>49,042</u>	<u>-</u>	<u>25,089</u>	<u>-</u>
Cash flows from capital and related financing activities				
Purchases of capital assets	(1,573,394)		(795,259)	
Grants and contributions for capital	524,082		108,133	
Proceeds from sale of equipment	2,629		15,596	
Principal payments on capital leases	(1,668,749)		(1,531,227)	
Interest paid	<u>(213,283)</u>		<u>(263,616)</u>	
Net cash used by capital and related financing activities	<u>(2,928,715)</u>	<u>-</u>	<u>(2,466,373)</u>	<u>-</u>
Cash flows from investing activities				
(Increase) decrease in investments and permanent endowments		165,308		(62,638)
Investment income received	<u>8,945</u>	<u>56,477</u>	<u>14,045</u>	<u>83,631</u>
Net cash provided by investing activities	<u>8,945</u>	<u>221,785</u>	<u>14,045</u>	<u>20,993</u>
Change in cash and cash equivalents	(356,277)	(103,501)	415,315	48,398
Cash and cash equivalents at beginning of year	<u>5,380,410</u>	<u>227,913</u>	<u>4,965,095</u>	<u>179,515</u>
Cash and cash equivalents at end of year	<u>\$ 5,024,133</u>	<u>\$ 124,412</u>	<u>\$ 5,380,410</u>	<u>\$ 227,913</u>

The accompanying notes are an integral part of these statements.

WILLIAM NEWTON MEMORIAL HOSPITAL  
STATEMENTS OF CASH FLOWS - CONTINUED  
Years ended December 31,

	2014		2013	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 924,322	\$ (336,286)	\$ 234,752	\$ 23,405
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation and amortization	2,226,085		2,035,526	
Provision for bad debts	1,614,454		530,105	
Changes in				
Patient accounts receivable	(2,243,584)		(1,588,603)	
Inventories	(38,827)		(6,758)	
Prepaid expenses	174,530		(19,291)	
Other receivables	(283,669)	11,000	362,119	4,000
Other assets	(310,958)		(72,500)	
Accounts payable and accrued expenses	(42,683)		537,691	
Estimated third-party payor settlements	494,781		829,513	
Net cash provided (used) by operating activities	<u>\$ 2,514,451</u>	<u>\$ (325,286)</u>	<u>\$ 2,842,554</u>	<u>\$ 27,405</u>
Supplemental schedule of noncash investing and financing activities				
Net change in unrealized gains (losses) on investments	\$ -	\$ (16,323)	\$ -	\$ 32,816
Capital lease obligations incurred	1,068,858			

The accompanying notes are an integral part of these statements.



WILLIAM NEWTON MEMORIAL HOSPITAL

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES

A summary of the significant accounting policies of William Newton Memorial Hospital consistently applied in the preparation of the accompanying financial statements follows.

1. Reporting entity

William Newton Memorial Hospital (Hospital) is governed by a five-member Board of Trustees appointed by the Commissioners of the City of Winfield, Kansas. The Hospital, which was organized in 1927, is a 25-bed, not-for-profit general hospital located in Winfield, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property.

The component unit discussed in Note A2 is included in the Hospital's reporting entity because of the nature and significance of its relationship with the Hospital.

2. Component unit

The financial statements include the financial data of the discretely presented component unit, William Newton Healthcare Foundation, Inc. (Foundation). The component unit is reported separately to emphasize that it is legally separate from the Hospital.

The Foundation is a legally separate not-for-profit corporation established for the purpose of providing financial assistance to the Hospital and assisting the Hospital and others in the recruitment of physicians and other medical health care personnel to locate and practice in Winfield, Kansas. The Foundation is administered by a self-perpetuating Board of Directors which is appointed by the Hospital who is the sole voting member of the Foundation.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Fair value of financial instruments

The carrying amount reported in the statement of net position for financial instruments including cash and cash equivalents, short-term investments, assets whose use is limited, accounts payable and other liabilities, settlements with third-party payors, and capital lease obligations approximate fair value.

WILLIAM NEWTON MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

6. Cash and cash equivalents

Cash and cash equivalents include all cash and highly-liquid debt instruments with maturities of three months or less excluding any such amounts included in short-term investments or assets limited as to use.

7. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on a percentage of revenue, the aging of its accounts receivable by type of payor, and its historical collection experience for each type of payor.

8. Inventories

Inventories are stated at cost as determined by the first-in, first-out method.

9. Assets limited as to use

Assets limited as to use include assets required to be retained in perpetuity by the contributors.

10. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating gains and losses.

11. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

WILLIAM NEWTON MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

12. Accrued discretionary leave

Employees of the Hospital are entitled to paid time off depending on length of service and whether they are full-time or part-time. Upon resignation, termination, or retirement from service with the Hospital, employees are entitled to payment for all accrued discretionary leave, up to an allowable maximum. The Hospital accrues these benefits as earned.

13. Net position

Net position of the Hospital is classified in four components. "Net position invested in capital assets net of related debt" consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Temporarily restricted" is net position whose use has been limited by donors to a specific time period or purpose. "Restricted nonexpendable" is net position equal to the principal portion of permanent endowments. "Unrestricted net position" is remaining net position that do not meet the definition of "invested in capital assets net of related debt," "temporarily restricted," or "restricted."

14. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

15. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided by the Hospital is disclosed in Note B.

16. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. Management is unaware of any uncertainties in income tax positions. Tax years ending on or after December 31, 2012, are subject to examination by taxing authorities.

WILLIAM NEWTON MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

17. Subsequent events

Management has reviewed subsequent events through the date of the independent certified public accountant's report, which is the date the financial statements were available to be issued.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for most services rendered to Medicare beneficiaries under various cost reimbursement methodologies. Physician services except for the rural health clinics, are prospectively paid based on their respective fee schedules. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2012.

Medicaid - Acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or fee-for-service basis.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

WILLIAM NEWTON MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE B - NET PATIENT SERVICE REVENUE - Continued

A summary of Hospital gross and net patient service revenue for the years ended December 31, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Gross patient service revenue	\$54,604,820	\$44,164,641
Deductions from patient service revenue		
Third-party contractual adjustments	(24,074,207)	(17,194,109)
Medicaid DSH payments	890,324	890,324
Other discounts and allowances	(167,862)	(125,596)
Charity care	(743,927)	(746,303)
Provision for bad debts	<u>(1,614,454)</u>	<u>(530,105)</u>
Net patient service revenue	<u>\$28,894,694</u>	<u>\$26,458,852</u>

The Hospital estimates that the cost of providing charity care, based on overall cost to charge ratios obtained from the Hospital's cost reports was \$366,407 and \$417,318 for 2014 and 2013, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 37 percent and 9 percent and 37 percent and 7 percent, respectively, of the Hospital's net patient service revenue during 2014 and 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Hospital recognizes revenue for EHR incentive payments when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between the Medicare and Medicaid programs. Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid. The Hospital did not recognize any revenue in 2013 and recognized \$194,266 of EHR incentive revenue in 2014.

WILLIAM NEWTON MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE B - NET PATIENT SERVICE REVENUE - Continued

The Hospital incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiatives. The amounts and timing of these expenditures do not directly correlate with the timing of the Hospital's recognition of EHR incentive revenue.

NOTE C - ASSETS LIMITED AS TO USE AND SHORT-TERM INVESTMENTS

Short-term investments and assets limited as to use, held by the Foundation, are carried at fair value which is determined based on quoted market prices in active markets, which are considered Level 1 inputs under GAAP. These assets are invested as follows and reported in the statement of net position under the following categories:

	2014		
	<u>Cost</u>	<u>Unrealized gains (losses)</u>	<u>Fair market value</u>
Equity mutual funds	\$ 423,982	\$ 103,436	\$ 527,418
Fixed income mutual funds	266,174	(3,531)	262,643
	<u>\$ 690,156</u>	<u>\$ 99,905</u>	<u>\$ 790,061</u>
Short-term investments			\$ 342,484
Assets limited as to use			447,577
			<u>\$ 790,061</u>
	2013		
	<u>Cost</u>	<u>Unrealized gains (losses)</u>	<u>Fair market value</u>
Equity mutual funds	\$ 345,992	\$ 121,510	\$ 467,502
Fixed income mutual funds	305,012	(5,691)	299,321
Certificates of deposit	204,869		204,869
	<u>\$ 855,873</u>	<u>\$ 115,819</u>	<u>\$ 971,692</u>
Short-term investments			\$ 524,155
Assets limited as to use			447,537
			<u>\$ 971,692</u>



WILLIAM NEWTON MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE D - CAPITAL ASSETS

Capital assets consist of the following:

	Balance December 31, 2013	Transfers and additions	Retirements	Balance December 31, 2014
Land	\$ 101,702	\$ -	\$ -	\$ 101,702
Land improvements	297,313	10,875		308,188
Buildings	21,729,913	1,177,597	23,743	22,883,767
Equipment	12,302,071	1,466,697	234,045	13,534,723
	<u>34,430,999</u>	<u>2,655,169</u>	<u>257,788</u>	<u>36,828,380</u>
Less accumulated depreciation and amortization				
Land improvements	278,468	62,072		340,540
Buildings	13,504,326	878,046	23,743	14,358,629
Equipment	7,618,893	1,285,967	231,900	8,672,960
	<u>21,401,687</u>	<u>2,226,085</u>	<u>255,643</u>	<u>23,372,129</u>
Projects in progress	-	212		212
Capital assets, net	<u>\$13,029,312</u>	<u>\$ 429,296</u>	<u>\$ 2,145</u>	<u>\$13,456,463</u>

  

	Balance December 31, 2012	Transfers and additions	Retirements	Balance December 31, 2013
Land	\$ 101,702	\$ -	\$ -	\$ 101,702
Land improvements	287,413	9,900		297,313
Buildings	21,702,464	27,449		21,729,913
Equipment	11,972,042	757,910	427,881	12,302,071
	<u>34,063,621</u>	<u>795,259</u>	<u>427,881</u>	<u>34,430,999</u>
Less accumulated depreciation and amortization				
Land improvements	275,244	3,224		278,468
Buildings	12,629,825	874,501		13,504,326
Equipment	6,888,973	1,157,801	427,881	7,618,893
	<u>19,794,042</u>	<u>2,035,526</u>	<u>427,881</u>	<u>21,401,687</u>
Capital assets, net	<u>\$14,269,579</u>	<u>\$ (1,240,267)</u>	<u>\$ -</u>	<u>\$13,029,312</u>

WILLIAM NEWTON MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE E - CAPITAL LEASES

Capital lease obligations consist of the following:

	<u>Date issued</u>	<u>Original amount</u>	<u>Interest rate</u>	<u>Outstanding balance</u>	
				<u>2014</u>	<u>2013</u>
Capital lease obligations, collateralized by leased equipment with an amor- tized cost of \$1,349,998	Various dates	\$ 2,173,821	0.00% to 9.12%	\$ 1,356,640	\$ 1,442,687
Capital lease obligations, collateralized by buildings or building improvements with an amortized cost of \$3,542,536	Various dates	5,196,966	4.25% to 5.25%	<u>3,028,651</u>	<u>3,542,495</u>
Total capital leases				4,385,291	4,985,182
Less current maturities of capital leases				<u>738,239</u>	<u>882,486</u>
Capital leases, net of current maturities				<u>\$ 3,647,052</u>	<u>\$ 4,102,696</u>

The following is a summary of changes in capital leases:

	<u>Beginning principal outstanding</u>	<u>Additions to principal</u>	<u>Reduction of principal</u>	<u>Ending principal outstanding</u>
2014 activity				
Capital leases	<u>\$ 4,985,182</u>	<u>\$ 1,068,858</u>	<u>\$ 1,668,749</u>	<u>\$ 4,385,291</u>
2013 activity				
Capital leases	<u>\$ 6,516,409</u>	<u>\$ -</u>	<u>\$ 1,531,227</u>	<u>\$ 4,985,182</u>

Scheduled annual future minimum lease payments under capital leases are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 738,239	\$ 161,095	\$ 899,334
2016	775,437	137,984	913,421
2017	698,534	108,488	807,022
2018	431,634	85,400	517,034
2019	286,917	67,441	354,358
2020 - 2024	909,676	217,459	1,127,135
2025 - 2027	<u>544,854</u>	<u>31,086</u>	<u>575,940</u>
Total	<u>\$ 4,385,291</u>	<u>\$ 808,953</u>	<u>\$ 5,194,244</u>

WILLIAM NEWTON MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE F - LINE-OF-CREDIT

The Hospital maintains a line of credit (LOC) at a local bank. During 2013, the Hospital paid \$220 in interest related to LOC borrowings. The LOC bears interest at 4.25 percent and no amounts were outstanding as of December 31, 2014. At December 31, 2014, the Hospital had a \$900,000 available line-of-credit which was renewed on April 9, 2015, for another year.

NOTE G - DEFINED BENEFIT PENSION PLAN

Plan description. The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-888-275-5737.

Funding policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 5 percent of covered salary for an employee first employed before July 1, 2009. K.S.A. 74-49,210 establishes the KPERS member-employee contribution rate at 6 percent of covered salary for an employee first employed on or after July 1, 2009. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers.

The employer rate established by statute at December 31, 2014 and 2013, is 9.69 percent and 8.69 percent. The Hospital employer contribution to KPERS for the year ended December 31, 2014 and 2013, was \$1,235,392 and \$1,031,170, equal to the statutory required contributions for each year.

NOTE H - OPERATING LEASES

The Hospital leases equipment under operating leases with related rentals charged to operations as incurred. Total rent expense for 2014 and 2013 was approximately \$226,000 and \$257,000, respectively.

NOTE I - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by

WILLIAM NEWTON MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE I - RISK MANAGEMENT - Continued

an independent insurance carrier also provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$1,000,000 per occurrence with an aggregate in any one policy year of \$1,000,000. All coverage is on a claims-made basis. The Hospital renewed this coverage in January 2015 for a one-year term.

NOTE J - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Statutes also require that financial institutions pledge securities with a market value equal to total deposits, in excess of F.D.I.C. coverage at any given time, and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

The carrying amount of the Hospital's deposits with financial institutions including repurchase agreements was \$5,022,088 and the bank balance was \$5,499,044 at December 31, 2014. The bank balance is categorized as follows at December 31, 2014:

Amount insured by the F.D.I.C., or collateralized with securities held by the Hospital in the Hospital's name	\$ 1,114,473
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Uncollateralized (collateralized with securities held in safekeeping under joint custody receipts by an authorized depository other than the pledging financial institution's trust department but not in the Hospital's name)	<u>4,384,571</u>
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\$ 5,499,044

WILLIAM NEWTON MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE K - CONCENTRATION OF CREDIT RISK

The Hospital is located in Winfield, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2014</u>	<u>2013</u>
Medicare	32%	28%
Medicaid	11	10
Blue Cross	13	16
Commercial insurance	18	18
Self-pay	<u>26</u>	<u>28</u>
	<u>100%</u>	<u>100%</u>

NOTE L - COMMITMENTS AND CONTINGENCIES

The Hospital sponsors a self-funded Employee Group Benefit Trust (EGBT) for the benefit of its employees. The Hospital deposits funds into the EGBT monthly and pays claims submitted on behalf of its employees. The EGBT purchases reinsurance to cover claims in excess of specific limits. Since the assets of the EGBT are not controlled by the Hospital and are held for the sole benefit of its employees, the assets and related liabilities are not included in the Hospital's financial statements. At December 31, 2014, the EGBT had total assets of \$1,127,748 with which to pay claims.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE M - RELATED PARTY TRANSACTIONS

William Newton Memorial Hospital Foundation is a component unit of the Hospital (Note A2). The Hospital employs the Foundation director and staff and provides office space to the Foundation at no cost. The Foundation also periodically transfers funds to the Hospital to support the Hospital's mission. During 2014 and 2013, the Foundation transferred \$560,836 and \$108,133 to the Hospital for the purchase of equipment, capital improvements to patient rooms, and physician recruiting.

NOTE N - RESTRICTED NET ASSETS

When a donor specifies the purpose of a contribution, the contribution and related income is recorded as either temporarily restricted or permanently restricted according to the donor's request. If the Foundation receives a gift that does not specify a restriction, the Foundation records the gift as unrestricted.

WILLIAM NEWTON MEMORIAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
December 31, 2014 and 2013

NOTE N - RESTRICTED NET ASSETS - Continued

The Foundation's net assets include permanent endowments, the income from which is to accumulate to enable the Foundation to provide continuing support to the Hospital. As required by generally accepted accounting principles, net assets associated with the endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Board of Trustees has interpreted the Kansas Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds. The remaining portion of the donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by UPMIFA.

It is the policy of the board to manage its investments in a prudent manner consistent with good stewardship, yet striving to enhance its return on the available funds. To assist in accomplishing this objective, the board has established an asset allocation policy, engages a professional investment advisor, and monitors the investments and investment returns.

If the fair value of assets associated with donor-restricted funds falls below the level that the donor or UPMIFA requires the Foundation to retain as permanently restricted, such deficiencies are reported in unrestricted net assets. At December 31, 2014, no such deficiencies existed.